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| **Company: Pepsi Co** | **Ticker: PEP Current Price: $ 98.41** | **Industry: Consumer Staples Sub Industry: Beverages – Soft Drinks** | |
| Target Price: $ 124  Stop Loss: $78.7  52 Week High/ Low: $103.44 / $ 76.48 | TTM P/E: 29.19  Forward P/E: 18.8  EPS: $3.37 | Beta: 0.76 (Bloomberg)  Credit Rating: A (S&P)  Rating Outlook: Stable | Market Cap: $143.3b  Avg Vol ( 3 M): 4.5m  Dividend Yield: 2.9% |

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| **Company Background:** |
| PepsiCo manufactures, markets, and sells a variety of salty, convenient, sweet, and grain-based snacks, as well as carbonated and noncarbonated beverages. The company's broad portfolio of brands includes Pepsi, Mountain Dew, Gatorade, Tropicana, Lay's, Doritos, and Quaker. Pepsi owns most of its bottling infrastructure in North America, but typically uses independent bottlers in international markets. Food accounts for ~50% of Pepsi's revenue. The United States accounts for ~50% of Pepsi's top line.   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | **2014 Rev %** | **Op. Profits%** |  | **Country** | **2014 Rev %** | | FritoLay North America (FLNA) | 22% | 37% |  | Canada | 4.66% | | Quaker Foods North America (QFNA) | 4% | 5.6% |  | Mexico | 6.34% | | Latin America Foods (LAF) | 12% | 11% |  | Other | 26.12% | | PepsiCo Beverages America (PAB) | 32% | 26% |  | Russia | 6.8% | | PepsiCo International – Europe | 20% | 12% |  | UK | 3.35% | | PepsiCo International – Asia, Middle East & Africa | 10% | 9.4% |  | USA | 52.73% | |
| **Industry Outlook:** |
| * Fundamental outlook for the soft drinks sub-industry is neutral. Over the next 12-months, we expect earnings and cash flow to grow, driven by pricing gains, new product introductions, improved demand for non-carbonated beverages as consumers continue to seek healthier products, and flavored carbonated beverages also have shown appeal to young and faster-growing ethnic groups. * Domestic non-alcoholic unit sales volume growth will improve on increased advertising and promotional spending and new product launches. Long-term prospects remain bright in foreign markets, where we see significant opportunities for consumption growth in developing and emerging regions |
| **Investment Thesis:** |
| * Focus on health and wellness should continue to drive the top line, and we look for strong returns to shareholders in the form of dividends and share repurchases. * EBITDA margins will widen in 2015 and 2016, in our view, as pricing increases, lower raw material costs, and productivity improvements offsets an unfavorable shift in geographic mix and unfavorable foreign currency exchange rates * Barriers to entry stemming from the company’s largely internally owned bottling and distribution network, premier relationships with major retailers, and strong brand awareness will continue to support these price increases and bar major gains from private label-competitors. |
| **Investment Risks:** |
| * Declining volume over the past decade as consumers have shifted their preferences toward juice, water, and other noncarbonated beverages * PepsiCo is only able to hedge approximately three fourths of its raw material costs, leaving it somewhat exposed to commodities fluctuations * Currency fluctuations & sizable geopolitical risks due to foreign operations |
| **3-5 take away from last quarter investor call transcript: Q3 2015** |
| * Organic revenue grew 7.4 percent * Core gross margin expanded 120 basis points & Core constant currency EPS increased 14 percent * On track to deliver approximately $1 billion productivity savings and $9 billion cash returns to shareholders * Strong sales growth in the U.S., where consumers are benefiting from falling gas prices. |

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| **Financial Performance:** | **Discounted Cash Flow** |
|  | |  |  |  | | --- | --- | --- | |  | 2010-15 | 2016-20 | | Avg Revenue growth | 9.6% | 2% | | Avg EBITDA Margin | 18% | 19% | | Avg Net Income Margin | 10% | 12% | | Avg Debt/Equity | 164.7 | 200 | | Avg FCF / Margin | 13% | 14% | | Cost of Debt | | 1.5% | | Tax Rate | | 28% | | Cost of Equity | | 8% | | WACC | | 6.7% | | Perpetuity growth rate | | 2% |   **Analyst Opinion**   |  |  |  | | --- | --- | --- | | Buy:17 | Hold: 12 | Sell: 0 | |  | Rating | Target | | S&P Net Advantage | Hold | $103 | | Morning Star | \*\*\* | $99 | | Value Line | T: 3 S: 1 | $110-$130 | |

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| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | Pepsi | Coca-Cola | Dr. Pepper | Industry | | P/E | 29.14 | 27.07 | 25.16 | 26.96 | | P/B | 10.7 | 7.1 | 8.1 | 6.8 | | Dividend Yield | 2.9% | 3.07% | 2.0% | 2.7% | | PEG Ratio | 3.87 | 9.40 | 3.24 | 3.27 | | EPS | 3.37 | 1.57 | 3.77 | 0.44 | | 5 yr-Revn Grth | 9.6% | 8.2% | 2.0% | 11.3% | | NI % | 9% | 15% | 12% | NA | | Operating Margin | 14% | 20% | 20% | NA | | Debt / Equity | 2.0 | 1.0 | 1.10 | 1.3 | | Market Cap | 143.08B | 184.57B | 17.90B | 1.12B | | Revenue TTM | 64.42B | 45.17B | 6.24B | 565.29M | | Net Income TTM | 5.04B | 6.88B | 729.00M | NA | | |  |  |  |  | | --- | --- | --- | --- | |  | PEP | Industry | S&P 500 | | YTD | -0.62% | -1.25% | -4.96% | | 2015 | 8.59% | 9.93% | 1.38% | | Last 3 Years | 16.23% | 11.88% | 15.13% | | Last 5 Years | 11.31% | 11.10% | 12.57% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | PEP | Industry | | Business Ethics Policy | 1 | 1 | | Governance Disclosure Score | 71.43 | 54.76 | | ESG Disclosure: | 47.52 | 29.01 | | Social Disclosure Score | 38.60 | 35.09 | | Environmental Disclosure Score | 41.09 | 22.09 |   **Prepared by Neel Munot (Feb 2, 2016) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance** |